

**MONTGOMERY COUNTY, MARYLAND  
OFFICE OF INSPECTOR GENERAL**

**2003 ANNUAL REPORT  
TO THE COUNTY COUNCIL  
AND COUNTY EXECUTIVE**

**October 1, 2003**



OFFICE OF INSPECTOR GENERAL

Norman D. Butts  
*Inspector General*

**MEMORANDUM**

October 1, 2003

TO: Michael L. Subin, President  
County Council

Douglas M. Duncan  
County Executive

FROM: Norman D. Butts *NDB*  
Inspector General

SUBJECT: **2003 Annual Report**

Attached in accordance with Montgomery County Code §2-151 is the 2003 Annual Report for the Office of Inspector General. Many of the items mentioned in the report are available on-line at [www.montgomerycountymd.gov](http://www.montgomerycountymd.gov). If you have any questions or comments, please do not hesitate to contact me.

Attachment



**ANNUAL REPORT  
FY2003**

**TABLE OF CONTENTS**

**TRANSMITTAL LETTER**

<b>1.</b>	<b>WORK PLAN ACTIVITIES .....</b>	<b>1</b>
<b>1.1</b>	<b>Current Work Plan.....</b>	<b>2</b>
<b>1.2</b>	<b>Audits – Completed And Works In Progress .....</b>	<b>2</b>
<b>1.2.1</b>	Housing Opportunities Commission Computer Network Security .....	3
<b>1.2.2</b>	Board of Investment Trustees Performance Audit.....	3
<b>1.2.3</b>	Montgomery County Government Fleet Management Services Performance Audit .....	3
<b>1.2.4</b>	Montgomery County Government Ride-On Management Overtime .....	4
<b>1.3</b>	<b>Inspections – Completed And Works In Progress .....</b>	<b>4</b>
<b>1.3.1</b>	Montgomery County Government Travel & Expense Credit Card Program.....	4
<b>1.3.2</b>	Montgomery County Government Commercial Driver’s Licenses Review.....	5
<b>1.3.3</b>	Montgomery County Government Implementation Of Audit Recommendations Review .....	5
<b>1.4</b>	<b>Complaints Processing .....</b>	<b>5</b>
<b>1.4.1</b>	Complaints .....	6
<b>1.5</b>	<b>Investigations – Completed And Works In Progress.....</b>	<b>7</b>
<b>1.5.1</b>	Board Of Investment Trustees – Conduct Of Former Director .....	7
<b>1.6</b>	<b>Follow-Up .....</b>	<b>7</b>
<b>1.6.1</b>	Montgomery County Government Animal Services Division – Program Evaluation Report .....	7

## TABLE OF CONTENTS (Continued)

	<u>Page</u>
1.6.2 MCPS Bus Transportation – Performance Audit .....	8
1.6.3 County-Wide Permanently Assigned Vehicles – Inspection Report.....	8
1.7 Integrity Checks .....	8
1.8 Administrative Issues .....	9
1.8.1 Procurement .....	9
2. RELATED ACTIVITIES .....	9
2.1 Professional Development.....	9
2.2 Quality Control .....	10
2.3 Professional Liaison .....	10
3. BENCHMARKING.....	10
3.1 Annual Audit Spending And Staffing .....	11
3.2 Direct Time To Available Time And Total Time .....	12
3.3 Audit Department Staffing And Spending.....	13
3.4 Cost/Audit Hour – Cost/Billable Hour.....	13
3.5 Audit Executive Salary Ranges.....	14
3.6 Pay Rates .....	15
3.7 Outcomes - Dollar Savings.....	15
3.8 Outcomes - Audit Recommendations Accepted And Implemented .....	16
4. BEST PRACTICES.....	16
4.1 Business Planning.....	17

## TABLE OF CONTENTS (Continued)

	<u>Page</u>
4.2 Measuring Results.....	17
4.3 Professional Audit Standards.....	18
4.4 Audit Activities.....	19
4.5 Use Of Automated Audit Tools.....	19
5. CONCLUSION.....	20

## LIST OF TABLES

Table 1 Comparison Of Complaints – FY01, 02, And 03 .....	6
Table 2 Audit Department Response Groups.....	11
Table 3 Annual Audit Spending and Staffing .....	12
Table 4 Direct Time to Available Time and Total Time .....	13
Table 5 Audit Department Staffing and Spending .....	13
Table 6 Cost/Audit Hour – Cost/Billable Hour .....	14
Table 7 Audit Executive Salary Ranges .....	15
Table 8 Pay Rates.....	15
Table 9 Outcomes - Dollar Savings .....	16
Table 10 Outcomes - Audit Recommendations Accepted and Implemented.....	16
Table 11 Business Planning .....	17
Table 12 Measuring Results .....	18
Table 13 Professional Audit Standards .....	18
Table 14 Audit Activities.....	19
Table 15 Use of Automated Audit Tools.....	19

## LIST OF ABBREVIATIONS

BIT	Board of Investment Trustees
CDL	Commercial Driver's License
CPA	Certified Public Accountant
CPE	Continuing Professional Education
DPWT	Department of Public Works and Transportation
FMS	Fleet Management Services
FY	Fiscal Year
HOC	Housing Opportunities Commission
N.A.L.G.A.	National Association of Local Government Auditors
OIG	Office of Inspector General

**MONTGOMERY COUNTY, MARYLAND  
OFFICE OF INSPECTOR GENERAL**

**ANNUAL REPORT  
FY2003**

**1. WORK PLAN ACTIVITIES**

The Office of Inspector General (OIG) has three broad goals that form the basis for the office's work plan activities. These goals are to review the effectiveness and efficiency of programs and operations of County government and independent County agencies; prevent and detect fraud, waste, and abuse in government activities; and propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies. OIG activities include performance audits; fraud, waste, and abuse investigations; inspections; integrity checks; and follow-up to findings and recommendations made in previously issued reports. OIG activities may encompass review of any of the programs and operations of County government and independent County agencies including the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, Montgomery College, the Housing Opportunities Commission, and the Revenue Authority. In addition OIG may review any other governmental agency (except a municipal government or a state-created special taxing district) for which the County Council appropriates or approves funding, sets tax rates, makes levies, or approves programs or budgets.

To assist OIG in the performance of its duties the office has adopted the following professional standards:

- Government Auditing Standards, 1994 Revision, Comptroller General of the United States, United States General Accounting Office, June 1994. (Audits begun after January 2004 will use the June 2003 revision.)
- Quality Standards for Investigations, President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency, September 1997.
- Quality Standards for Inspections, President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency, March 1993.

All policies and procedures established by OIG and all performance audits, investigations, and inspections conform to these standards. The standards cover such things as staff qualifications, independence, due professional care, quality control, fieldwork, and reporting.

## **1. WORK PLAN ACTIVITIES (Continued)**

### **1.1 Current Work Plan**

The inspector general was appointed to a full four-year term beginning July 1, 2001. The inspector general is required to adopt a work plan within six months of appointment. During the first six months of his term, the inspector general met with community leaders and interested citizens regarding any questions or concerns they had about County operations. That process also gave the inspector general an opportunity to seek recommendations and suggestions for the new work plan from the County Executive, the County Council, the heads of independent County agencies, employees of County government and independent County agencies, and employee organizations. In addition, OIG updated and expanded its risk assessment tool to include most agencies identified in the inspector general enabling legislation. This risk assessment tool rated 733 programs in County government, Montgomery County Public Schools, Maryland-National Capital Park and Planning Commission, Montgomery College, Housing Opportunities Commission, and Washington Suburban Sanitary Commission.

The work plan for the period January 1, 2002 through December 31, 2005 was submitted to the County Council and County Executive in December 2001. This work plan was organized into three programmatic areas: to prevent and detect fraud, waste, and abuse; to increase legal, fiscal, and ethical accountability; and to review efficiency and effectiveness of programs and operations. A fourth area, administrative items, was identified encompassing such tasks as required continuing professional education for staff, contract administration, budgeting, preparing the annual report and participating in benchmarking activities, as well as other administrative tasks.

### **1.2 Audits – Completed And Works In Progress**

An audit is a formal, methodical examination or review of the accounts, records, transactions, or activities (or parts thereof) of an organization, program, or individual. OIG audits may include, but not be limited to, a focus on the following issues and questions:

- Compliance. Is the office or department complying with requirements of laws and regulations applicable to the program under review?
- Management Controls. Does the office or department have an adequate management control system for measuring, reporting, and monitoring the program's efficiency and effectiveness?
- Procurement. Is the office or department following sound procurement practices?
- Assets Management. Is the office or department properly protecting and maintaining its resources?
- Staffing. Is the office or department avoiding idleness and overstaffing with respect to the program being reviewed?



## **1. WORK PLAN ACTIVITIES (Continued)**

During FY 2003 OIG staff and consultants published one audit. At the end of the year an additional three audits were in various stages of completion.

### **1.2.1 Housing Opportunities Commission Computer Network Security**

OIG contracted with Forensics Explorers to conduct an audit of Housing Opportunities Commission (HOC) computer network security. (HOC is a public corporation established by Maryland law to act as a builder, developer, financier, owner, and manager of housing for people of low and moderate income.) The report contained thirteen findings and management concurred with seven and concurred in part with six. We found HOC to have a strong computer security position which could be improved with implementing written security procedures, disaster recovery protocols, and periodic system audits.

### **1.2.2 Board Of Investment Trustees Performance Audit**

In May 2002 OIG began planning for a performance audit of the Board of Investment Trustees (BIT) programs and activities. (BIT manages assets of the employees' retirement system through investment managers in accordance with the board's basic asset allocation.) The focus of this audit is the efficiency and effectiveness of BIT programs and activities as evaluated against various industry performance measures; the effectiveness of management controls; prior audit recommendation implementation; and asset management. OIG extended its resources through the use of a contractor, Computech International, Inc., to review management controls especially with respect to accounts payable with a focus on contracts with major service providers. Included in the BIT audit report will be the results of our investigation into the activities of the former BIT director. Our investigation uncovered numerous instances where the former director violated the public trust during his tenure as director.

### **1.2.3 Montgomery County Government Fleet Management Services Performance Audit**

OIG has resumed efforts to complete a review of Fleet Management Services (FMS) fixed assets. (FMS acquires, maintains, and disposes of the County's fleet of motor vehicles). The focus of this audit is the efficiency and effectiveness of FMS programs and activities as evaluated against various industry performance measures; the effectiveness of management controls; prior audit recommendation implementation; and asset management.





## **1. WORK PLAN ACTIVITIES (Continued)**

### **1.2.4 Montgomery County Government Ride-On Management Overtime**

OIG contracted with Gardiner, Kamy, & Associates, P.C. to conduct an audit of the overtime practices of management staff at Ride-On. (Ride-On provides fixed-route bus service in neighborhoods throughout the County and coordinates with WMATA bus and rail service.) This audit concentrated on the internal controls surrounding the use of management overtime and related staffing issues, implementation of prior audit findings, and a review of the efficiency and effectiveness of Ride-On programs and activities as evaluated against various industry performance measures. The contractor has completed field work and is in the process of drafting findings and recommendations and completing the report.

### **1.3 Inspections – Completed And Works In Progress**

An OIG inspection is aimed at evaluating, reviewing, analyzing, or studying programs and activities of departments or offices for the purpose of providing information to policy makers and managers for decision making, for making recommendations for improvements to programs, policies, or procedures, and for administrative action. An inspection addresses situations where a topic or issue crosses departmental or agency boundaries and has County-wide implications. Examples of issues or topics that might be the subject of an OIG inspection include travel, telephone and computer usage, take-home vehicles, best practices, etc.

During FY 2003 OIG staff published one inspection report, initiated an inspection project, and continued work on an ongoing follow-up project.

#### **1.3.1 Montgomery County Government Travel & Expense Credit Card Program**

The intent of the County's travel and expense credit card program was to provide departments with the ability to procure travel, lodging, and dining services conveniently. This inspection reviewed policies, procedures, and controls of the program and made recommendations to improve management of current and future County credit card programs. The report contained 14 findings and recommendations aimed primarily at tightening controls for any County credit or purchase card program. Recommendations included keeping a current list of cardholders, providing training for card holders and supervisors, and providing card holders with written program guidelines including any changes in policies and procedures. The County chose not to respond to individual findings and recommendations because of claims that the Travel & Expense Card program has been replaced by a Purchase Card program.



## **1. WORK PLAN ACTIVITIES (Continued)**

### **1.3.2 Montgomery County Government Commercial Driver's Licenses Review**

OIG began a review of the license status for holders of commercial driver's licenses (CDL) employed by Montgomery County Government as one of our integrity checks. The County has nearly 950 positions requiring a CDL as a condition of employment. Most of these employees are employed in the Department of Public Works and Transportation and drive Ride-On buses and operate heavy equipment. Several other departments have one or more positions requiring a CDL. In addition, OIG is reviewing departmental policies and procedures for keeping federally required information about CDL holders. Fieldwork is still in progress.

### **1.3.3 Montgomery County Government Implementation Of Audit Recommendations Review**

Implementation of audit recommendations is crucial to the improvement of program efficiency and effectiveness. Programs are subject to audit by both internal and external audit entities. Government auditing standards encourage auditors to establish a process to follow-up on audit recommendations. To fulfill that standard, OIG collects audit reports on programs under its jurisdiction and has developed a database to assist in monitoring agency implementation of recommendations. The database includes findings issued, recommendations made, auditee response to findings and recommendations, and status of recommendation implementation. The OIG review of audit implementation takes two forms. First, all OIG performance audits will include a section on prior audit implementation. Second, OIG will periodically select a department or program that would not otherwise be included in our work plan and review prior audit implementation status.

## **1.4 Complaints Processing**

In order to achieve the stated goals of the office, OIG seeks input from various stakeholders. OIG encourages stakeholders to contact the office to provide information pertaining to suspected weaknesses in program operations. Complaints are received in writing, by telephone, or in-person. Each complaint is logged and documented and OIG staff evaluates each complaint for credibility and relevancy to the OIG mission. Complaints can form the basis of an investigation, particularly into allegations of fraud, waste, and abuse, or of a performance audit or inspection. Complaints can be resolved in several ways: (1) through the issuance of an OIG report following a formal audit or investigation, (2) by referral to another agency better situated to address the complaint, or (3) for administrative reasons, such as, unsupported/insufficient evidence or lack of jurisdiction. Open complaints are categorized as active or pending. Active complaints involve critical, time-sensitive issues, such as an allegation of fraud, and therefore have priority. Pending complaints involve issues that may merit further OIG review but resources preclude an immediate resolution.

## 1. WORK PLAN ACTIVITIES (Continued)

### 1.4.1 Complaints

OIG began FY 2003 with 59 open complaints. From July 1, 2002 to June 30, 2003 we received 60 new complaints. During that period the office disposed of 64 complaints and as of June 30, 2003 had 55 open. Of the 60 complaints received by OIG during the year, 14 (23.3 percent) were received from persons employed by the County or an independent agency, 40 (66.7 percent) were received from citizens. The remaining 6 complaints (10.0 percent) were anonymous.

The 64 complaints disposed of during FY 2003 were disposed of in two ways. Some complaints were closed for administrative reasons, such as lack of evidence, lack of jurisdiction, or if it was otherwise unsupported. Other complaints were closed by referring the issue to another department, office, or agency, where appropriate, for resolution by that organization.

<b>Table 1. Comparison of Complaints — FY01, 02, and 03</b>			
<b>Complaints Caseload Analysis</b>	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>
Open – Beginning of Year	37	54	59
Received During Year	68	68	60
Closed – Administrative	24	51	58
Closed – Referral	18	4	6
Closed – Report Issued	9	8	0
Open – End of Year	54	59	55
<b>Complaints Open Status</b>			
Active	32	38	16
Pending	22	21	39
Total	54	59	55
<b>Source Of Complaints</b>			
Employees	16	12	14
Non-Employees	44	50	40
Anonymous	8	6	6
Total	68	68	60
<b>Type of Complaints</b>			
Fraud, Waste, or Abuse	48	38	28
Efficiency/Effectiveness	N/A	N/A	18
Other	20	30	14
Total	68	68	60

Source: OIG analysis.



## **1. WORK PLAN ACTIVITIES (Continued)**

### **1.5 Investigations – Completed And Works In Progress**

One of the goals of the OIG, as stated in the office's enabling legislation, is to prevent and detect fraud, waste, and abuse in government activities. The primary tool OIG uses in its efforts to prevent and detect fraud, waste, and abuse is an investigation. An investigation often begins as the result of a complaint alleging a violation of laws and regulations or the public trust. Investigations are generally more narrowly focused on the activities of an individual in contrast to a broader program performance audit. The office initiates an investigation only upon sufficient and credible information alleging fraud, waste, and abuse. Investigations are often worked in close coordination with other entities, such as law enforcement and regulatory agencies.

During FY 2003 OIG completed one investigation, others remain ongoing.

#### **1.5.1 Board Of Investment Trustees – Conduct Of Former Director**

OIG initiated an investigation of the former director after detecting significant inappropriate use of his County-issued credit card. The investigation documented serious abuse of the County-issued credit card for personal gain, other financial abuses involving the use of retirement plan trust funds incurred during non-local travel events and for employee development activities, and non-compliance with County ethics law provisions. This conduct constituted a violation of the public trust. Subsequently, the former director resigned. OIG coordinated its investigative activities with the State's Attorney Office and the Department of Finance Internal Audit Section.

### **1.6 Follow-Up**

Much of the benefit from audit work is in the effective implementation of recommendations made rather than simply in the findings reported. Auditee management is responsible for resolving audit findings and recommendations. Having a process to track the status of implementation of recommendations can help management fulfill this responsibility. Continued attention to the implementation of recommendations helps ensure the public that the benefits of audit work will be realized.

During FY 2003 OIG published two follow-up projects and initiated a third.

#### **1.6.1 Montgomery County Government Animal Services Division – Program Evaluation Report**

OIG contracted with the National Animal Control Association (NACA) to review implementation of recommendations made in the program evaluation report of activities of the Animal Services Division and Montgomery County Humane Society published in April 2000. The agencies had agreed to implement 164 findings. We asked each agency to



## **1. WORK PLAN ACTIVITIES (Continued)**

perform a self-assessment regarding implementation. We then asked NACA to perform its own assessment of implementation progress. The assessments were similar in both cases. Both agencies have made some progress, but more work remains to be done.

### **1.6.2 MCPS Bus Transportation – Performance Audit**

OIG staff reviewed implementation of recommendations in the Montgomery County Public Schools Bus Transportation Program Performance Audit Report. The original report was published in June 2000. We asked MCPS to perform a self-assessment. We then verified their supporting information. We were pleased to see a nearly complete level of implementation in the safety-related findings. In addition MCPS has made progress in its fixed asset accounting procedures and using MAPNET to pay drivers.

### **1.6.3 County-Wide Permanently Assigned Vehicles – Inspection Report**

OIG began field work to review implementation of recommendations in all County agency permanently assigned vehicle programs. The report was published in June 2001.

## **1.7 Integrity Checks**

OIG periodically reviews and compares various government databases containing information pertinent to County government and independent County agency programs and operations. An integrity check is a valuable tool OIG uses in its efforts to prevent and detect fraud, waste, and abuse. In the interest of maintaining maximum deterrent value, OIG prefers not to describe specific checks. However, the following hypothetical situations might be instructive. For example, in programs where employees or contractors are required to hold licenses or certifications or where specific safety training or insurance is required as a condition of employment or contract, OIG might compare employee rosters and vendor lists with licensing, certification, training organizations, or insurers. Integrity checks may often serve as the catalyst for further audits, inspections, or investigations. During FY 2003, we conducted a check to determine whether all County employees holding a position requiring a commercial driving license were appropriately licensed. The preliminary results of the check identified a number of discrepancies sufficient enough to justify a more thorough inspection of the management controls over this important accountability issue. The resulting inspection project is currently being conducted (reference 1.3.2)

To facilitate the efficiency and effectiveness of integrity checks, OIG utilizes IDEA, a nationally recognized data analysis software program used by many private sector accounting and auditing firms. All OIG staff are trained in the use of this software.

## **1. WORK PLAN ACTIVITIES (Continued)**

### **1.8 Administrative Issues**

In addition to completing audits, inspections, complaints processing, investigations, integrity checks, and audit follow-up activities described above, OIG is also involved in many administrative issues and tasks that take up time and other valuable resources. In the past year those issues included such things as completing the annual report, revising and refining our risk assessment tools, undergoing a lengthy procurement to obtain qualified consultants, and responding to Council requests for information during the budget process.

#### **1.8.1 Procurement**

In FY 2002 OIG completed the procurement process to develop two panels of pre-approved contractors to provide specialized services and to supplement OIG resources as necessary. We issued two RFPs, one for program audit services, the other for investigative services, to local businesses. We had an excellent response to both RFPs. We have approved five firms to perform performance audit work, four of whom are new vendors for Montgomery County. We have approved three firms to provide investigative services. These firms have expertise in the area of contract fraud and all are new vendors for the County. Our initial experience with our new vendors has been favorable.

## **2. RELATED ACTIVITIES**

### **2.1 Professional Development**

OIG's staff of three auditors possesses an array of graduate and professional degrees including master of business administration, master of public administration, and juris doctor. In addition one auditor is a certified public accountant, one is a certified internal auditor, and one is a certified fraud examiner and a certified inspector general. Generally accepted governmental auditing standards require OIG auditors to obtain 80 hours of continuing professional education (CPE) during a two-year period. For OIG accounting purposes, the current two-year period began on July 1, 2002 and ends on June 30, 2004. All auditors have been in compliance with CPE requirements in both of the prior two year periods and expect to remain in compliance with continuing professional education requirements. CPE courses taken by OIG auditors during the past year included such topics as sampling, use of IDEA, and contract and procurement fraud.

OIG auditors maintain memberships in several professional associations. Current affiliations include the American Institute of Certified Public Accountants, the American Society for Public Administration, the Association of Certified Fraud Examiners, the Association of Inspectors General, the Government Finance Officers Association, the International City/County Management Association, and the National Association of Local Government Auditors.



## **2. RELATED ACTIVITIES (Continued)**

### **2.2 Quality Control**

Generally accepted governmental auditing standards require OIG to have in place an appropriate internal quality control system and to undergo an external quality control review at least once every three years.

The nature and extent of an organization's internal quality control system depend on a number of factors, such as its size, the degree of operating autonomy, the nature of its work, its organizational structure, and appropriate cost/benefit considerations. Because OIG is a small organization consisting of four employees, its internal quality control system is less formal than that which would be found in larger organizations. The OIG is following applicable auditing standards and has established adequate audit policies and procedures. For example, the inspector general regularly reviews investigative and audit work papers and is always available to discuss planning, fieldwork, and other operational issues with OIG auditors and consultants as those issues arise. In addition to numerous OIG staff reviews of drafts throughout the process, officials and employees from audited agencies, County Council, the County Executive, and other appropriate parties are invited to review and comment on draft findings and reports before their publication. At the conclusion of an investigation or audit, OIG auditors and contract consultants are evaluated by the inspector general. All OIG employees are evaluated annually by the inspector general.

OIG underwent peer review by the National Association of Local Government Auditors (N.A.L.G.A.) in April 2001 and is scheduled for repeat triennial evaluation in April 2004. In 2001 a team of auditors reviewed OIG policies and procedures, quality control process, staff certification, compliance with continuing education requirements, and examined the work papers supporting OIG conclusions from a sample of OIG reports. At the conclusion of their review, N.A.L.G.A. awarded OIG its highest quality rating.

### **2.3 Professional Liaison**

OIG meets periodically with representatives of other County government and independent County agency audit, investigative, and program evaluation offices to share information and to discuss audit and other matters of mutual concern. These offices include the Office of Legislative Oversight, the Internal Audit Section of the Department of Finance, the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, Montgomery College, and the Washington Suburban Sanitary Commission. OIG also meets on occasion with state agency auditors as well as inspectors general of various federal agencies and the District of Columbia.

## **3. BENCHMARKING**

Benchmarking government services is often easier said than done. The inspector general believes that perfect benchmarks do not exist for most programs and that program managers



### 3. BENCHMARKING (Continued)

who wait for perfect or near perfect measures and perfect or near perfect control groups will most likely never begin the benchmarking process. Five years ago OIG began the practice of benchmarking using comparative data from the National Association of Local Government Auditors. For this year's analysis OIG uses the N.A.L.G.A. 2002 Benchmarking and Best Practices Survey. OIG has regularly participated in and strongly supports this continuing N.A.L.G.A. effort. Respondents in group 2 are identified as the OIG peer group. (Group 2 includes audit shops containing 3+ to 12 auditors). This year OIG presents information from its operations for 2001, 2002, and 2003.

N.A.L.G.A. is made up of local government audit professionals. Members are elected and appointed executive, legislative, and judicial branch auditors from large-, medium-, and small-sized audit shops. These audit shops perform financial statement audits, financial related audits, performance audits, program evaluations, policy analyses, management consulting services, and more. OIG use of N.A.L.G.A. benchmarking and best practices data for comparative purposes is not perfect, but we continue to believe it is the best data available.

Table 2. Audit Department Response Groups			
Group	# of Audit Depts.	Full Time Audit Staff	Annual Audit Spending
<b>FY 02 PEER</b>	<b>31</b>	<b>3+ to 12 Auditors</b>	<b>\$246,000 - \$911,000</b>
<b>FY 01 OIG</b>	<b>--</b>	<b>3 Auditors</b>	<b>\$ 527,228</b>
<b>FY 02 OIG</b>	<b>--</b>	<b>3 Auditors</b>	<b>\$ 540,644</b>
<b>FY 03 OIG</b>	<b>--</b>	<b>3 Auditors</b>	<b>\$ 612,556</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

The N.A.L.G.A. report identifies the resource inputs that were made available to audit departments and the resulting outputs and outcomes from their work. These data are commonly found in the audit departments' annual budgets and spending reports, and in internal time management and activity reports that identify the type and number of reports issued, the audit time used, audit recommendations, and the projected financial savings that may have resulted from their work. OIG audit spending shown here includes not only budgeted amounts but a County overhead rate and rent which is in the DPWT budget.

#### 3.1 Annual Audit Spending And Staffing

Audit salaries for the peer group represented 64 percent of total audit department expenses. The remaining cost elements included employee benefits, secretarial services, training, travel, and other costs. Approximately 31 percent of audit organizations used interns or part-time auditors, which increased their available audit time by 9 percent. In addition, 45 percent of audit departments used outside auditors or consultants to conduct internal or external reviews.



### 3. BENCHMARKING (Continued)

Comparing audit salaries to total department expenses is one way to measure audit efficiency. The higher the percentage of expenses going to audit salaries, the fewer the dollars going to non-audit activities. OIG has included in its expenses a 15.74 percent overhead rate for central services and \$59,342 for OIG office rent not included in the OIG operating budget. Including all these costs OIG's ratio is 44 percent. About 53 percent of the N.A.L.G.A. survey respondents included non-budget costs in the expenses they reported. On average these costs are about 14 percent of total costs where included. For OIG these non-budgeted costs represent over 22 percent of costs. When these amounts are excluded from OIG expenses, audit salaries to total department expenses are 58 percent, which is within one standard deviation of the peer group average. Also, the average peer group staff size is 7.1. Adding three additional auditors to OIG would likely push the OIG figure to over 70 percent because rent, support services, and other core operating expenses would not be increased proportionately.

Table 3. Annual Audit Spending and Staffing			
Group	Expenses	Audit Salaries to Budget Expenses	Audit Staff Size
<b>FY 02 PEER</b>	<b>\$ 609,431</b>	<b>65% (std. deviation 17%)</b>	<b>7.1</b>
<b>FY 01 OIG</b>	<b>\$ 421,714</b>	<b>60%</b>	<b>3.0</b>
<b>FY 02 OIG</b>	<b>\$ 433,719</b>	<b>59%</b>	<b>3.0</b>
<b>FY 03 OIG</b>	<b>\$ 490,680</b>	<b>58%</b>	<b>3.0</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.2 Direct Time To Available Time And Total Time

Comparing direct time to available time and total time is another way to measure audit efficiency. In order to more easily understand the concepts of direct time to available time and total time it is necessary to define those terms. "Direct Time" includes all hours spent on audits, follow-up audits, or other similar activities. "Indirect Time" includes hours used for everything else including general management, training, and other indirect activities. "Benefit Time" includes vacation, holiday and sick leave, and other paid leave.

The computations used to prepare data for comparing direct time to available time and total time are as follows:

$$\begin{aligned}\text{Available Time} &= \text{Direct Time} + \text{Indirect Time;} \\ \text{Total Time} &= \text{Available Time} + \text{Benefit Time.}\end{aligned}$$

For the peer group the rates of direct time to available time and direct time to total time were 72 percent and 62 percent respectively. OIG data has improved each year and in FY 2003 meets or exceeds the peer group in percentage of time spent on projects.

### 3. BENCHMARKING (Continued)

Table 4. Direct Time to Available Time and Total Time		
Group	Direct Time to Available Time	Direct Time to Total Time
<b>FY 02 PEER</b>	<b>72% (std. deviation 11%)</b>	<b>62% (std. deviation 9%)</b>
<b>FY 01 OIG</b>	<b>67%</b>	<b>57%</b>
<b>FY 02 OIG</b>	<b>69%</b>	<b>59%</b>
<b>FY 03 OIG</b>	<b>74%</b>	<b>62%</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.3 Audit Department Staffing And Spending

The audit department staffing and spending benchmark provides a ratio of audit staffing and spending to the staff size and spending rate of the government organization that hosts the audit shop. N.A.L.G.A. recommends that before relying heavily on these macro-efficiency measures, more specific information should be developed regarding the organizational needs and usage patterns of auditors within the government organization.

When comparing numbers of auditors and amount of audit spending OIG data do not include other County audit or similar programs such as Office of Legislative Oversight and the Internal Audit Section. Information for the audit organization includes staff and spending for general County government only. The OIG auditor to local government staff ratio is 1 : 2,851 and the OIG spending to local government spending ratio is \$1 : \$2,572. In both cases, the OIG numbers are above the ranges established by the N.A.L.G.A. peer group. If OIG ratios were the same as the peer group average, OIG would have 13 auditors and a budget in excess of \$1.1 million.

Table 5. Audit Department Staffing and Spending		
Group	Auditor To Number Of Local Government Staff	\$1 Auditor Spending To Local Government Spending
<b>FY02 PEER</b>	<b>1 : 640</b> <b>(range 105 - 1,467)</b>	<b>\$1 : \$1,153</b> <b>(range \$211 - \$5,675)</b>
<b>FY 01 OIG</b>	<b>1 : 2,793</b>	<b>\$1 : \$2,336</b>
<b>FY 02 OIG</b>	<b>1 : 2,851</b>	<b>\$1 : \$2,646</b>
<b>FY 03 OIG</b>	<b>1 : 2,851</b>	<b>\$1 : \$2,572</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.4 Cost/Audit Hour – Cost/Billable Hour

What is the cost per hour to run the OIG? A number of government audit organizations have historically used “cost per audit hour” or “cost per billable hour” rates to compare their operations to other government audit shops and outside CPA consulting firms. In computing these costs, the table below presents a comparison using two traditional but different

### 3. BENCHMARKING (Continued)

measures. The basic computations used were “cost per audit hour” (total audit department cost excluding department general and administrative costs divided by total audit hours) and “cost per billable hour” (total audit department cost including department general and administrative costs divided by total direct hours).

Most audit shops calculate a cost per audit hour. This computation divides the total audit hours (available or paid) into the total audit department cost. However, in order for an audit shop to compare its true cost of operation with the private sector, the audit shop needs to develop a billing rate that fully absorbs all its operating costs, in particular, the general and administrative cost that is paid by the audit organization. This includes costs not allocated to the audit department, such as office space, central services for copying, payroll, and human resources support activities. In addition, the audit department must identify the direct audit time used while completing ongoing assignments. Most professional services firms that quote hourly rates must absorb the firm's indirect cost through its direct billable hours.

The billable hourly rate shown for the peer group is based on the reported direct time calculated by the surveyed audit shops. The hourly rate shown is based on a standard eight-hour workday. N.A.L.G.A. reported that 53 percent of the survey respondents identified any additional general and administrative costs paid by the host organization. The general and administrative costs averaged 14 percent of the reported costs needed to run an audit shop. Both the “Cost/Audit Hour” and the “Cost/Billable Hour” rates exclude all payments made to outside consultant firms, if funded by that audit shop.

OIG cost per audit hour and cost per billable hour remain considerably higher than those for the peer group. There are several possible reasons for this. The cost of living is generally higher in the Washington metropolitan area than in many other areas of the country. Additionally, OIG data on cost include a 15.74 percent overhead rate for central services and \$59,342 for office rent not included in the OIG operating budget. If OIG excluded overhead and rent costs from its cost per billable hour calculation, the hourly rate would be **\$114.32**, over \$32.50 per hour less. Over the past three years overhead and rent components of the billable hour rate have grown faster than salaries and other indirect operating costs.

Table 6. Cost/Audit Hour – Cost/Billable Hour		
Group	Cost/Audit Hour	Cost/Billable Hour
<b>FY 02 PEER</b>	<b>\$ 44.42</b>	<b>\$ 73.57</b>
<b>FY 01 OIG</b>	<b>\$ 71.04</b>	<b>\$ 133.26</b>
<b>FY 02 OIG</b>	<b>\$ 75.75</b>	<b>\$ 137.13</b>
<b>FY 03 OIG</b>	<b>\$ 84.83</b>	<b>\$ 146.81</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.5 Audit Executive Salary Ranges

Audit executive salary data were collected in four ranges: \$25,000 -\$49,999; \$50,000 - \$74,999; \$75,000 - \$99,999; and, \$100,000+. The data indicate that the larger the audit shop

### 3. BENCHMARKING (Continued)

the higher the percent of audit executives that are included in the upper salary ranges. There is a strong correlation between the size of the shop and the salary of the audit executive.

The Montgomery County Inspector General's salary falls within the range where 19 percent of peer group audit executive salaries are found. The fact that the inspector general's salary is on the high end of that range is probably reflective of the general cost of living in the area.

Table 7. Audit Executive Salary Ranges (\$ in thousands)				
Group	\$25-\$49	\$50- \$74	\$75- \$99	\$100+
<b>FY 02 PEER</b>	<b>0%</b>	<b>23%</b>	<b>58%</b>	<b>19%</b>
<b>FY 01 OIG</b>			✓	
<b>FY 02 OIG</b>				✓
<b>FY 03 OIG</b>				✓

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.6 Pay Rates

N.A.L.G.A. has changed its reporting format for staff salaries. OIG in adopting this new format has classified both staff at the manager level. The current average N.A.L.G.A. salary level for management audit is displayed below. Given the size of the OIG audit staff (2) and the generally higher cost of living associated with the Washington metropolitan area, it is not surprising that OIG salaries are above the peer average. OIG salaries are comparable to other County audit and evaluation offices.

Table 8. Pay Rates	
Group	Manager Salary
<b>FY 02 PEER</b>	<b>\$ 66,905</b>
<b>FY 01 OIG</b>	<b>\$ 75,706</b>
<b>FY 02 OIG</b>	<b>\$ 74,397</b>
<b>FY 03 OIG</b>	<b>\$ 78,705</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.7 Outcomes - Dollar Savings

Not all OIG activities and products result in dollar savings. Deterrence is a very important product in an inspector general operation and is difficult to quantify. However, an important outcome measure for auditors is dollars saved compared to audit dollars spent. The costs reported here are costs associated with the specific projects where savings were identified. A total of 14 peer group audit shops collected data that measured their financial impact in this way. Projected dollar savings reflect the results of all audit work, including performance

### 3. BENCHMARKING (Continued)

audits, financial related audits, and other management advice. The average ratio for the peer group for 2002 was \$2.94 returned for each \$1 in audit spending.

OIG uses the federal inspector general model to define “savings.” That model expresses outcomes in “unsupported costs” and “questioned costs.” OIG includes identified uncollected revenue and fixed asset misstatements in the definition of savings. The OIG data shown below use a combined total for unsupported costs, questioned costs, and uncollected revenue reported in County Travel and Expense Card Policies and Use Inspection Report issued during FY 2003. **OIG’s overall historic cost recovery is \$2.40 per audit dollar spent, a positive return for the County’s taxpayers.**

Table 9. Outcomes - Dollar Savings		
Group	Projected \$ Savings	Ratio of \$ Saving to Audit \$
<b>FY 02 PEER</b>	<b>\$1,806,890</b> <b>(range \$42,280 - \$5,560,000)</b>	<b>\$2.94</b> <b>(range \$ .06 - \$7.92)</b>
<b>FY 01 OIG</b>	<b>\$1,081,980</b>	<b>\$2.81</b>
<b>FY 02 OIG</b>	<b>\$ 78,981</b>	<b>\$ .80</b>
<b>FY 03 OIG</b>	<b>\$ 109,238</b>	<b>\$ .88</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 3.8 Outcomes - Audit Recommendations Accepted And Implemented

Another important outcome measure is the number of audit recommendations accepted and implemented by auditee management. The number of recommendations accepted and recommendations implemented by management are shown in the table below. The average rate for “Recommendations Accepted” by management was 95 percent for the peer group; the average rate for “Recommendations Implemented” was 63 percent.

Table 10. Outcomes - Audit Recommendations Accepted and Implemented		
Group	% Accepted	% Implemented
<b>FY 02 PEER</b>	<b>95% (range 63% - 100%)</b>	<b>63% (range 0% - 100%)</b>
<b>FY 01 OIG</b>	<b>94% (212 of 226 findings)</b>	<b>N/A</b>
<b>FY 02 OIG</b>	<b>81% (21 of 26 findings)</b>	<b>N/A</b>
<b>FY 03 OIG</b>	<b>96% (26 of 27 findings)</b>	<b>45% (82 of 183 findings)</b>

Source: OIG analysis of N.A.L.G.A. and OIG data.

### 4. BEST PRACTICES

This section identifies the progress made to date and the level of experience that audit organizations possess when conducting routine audit practices and implementing new and innovative audit techniques. The most recent published N.A.L.G.A. survey, conducted in

#### 4. BEST PRACTICES (Continued)

2002, asked each local government audit shop to make a self-evaluation of its current status regarding a topic area. For purposes of the OIG annual report a point system has been developed with points assigned for each of four “status levels.” The status levels and the points assigned are: highly successful (4), experienced (3), just starting (2), and not applicable (1).

The following tables show the percent of audit shops in the peer group that identified their own shop as being either highly successful or experienced (the two highest ratings) in various topic areas of audit practices and techniques currently used in the audit profession. OIG compares its experience for 2001 through 2003 to those peer group audit shops. For presentation purposes the topic areas are combined into the following activities: Business Planning, Measuring Results, Professional Audit Standards, Audit Activities, and the Use of Automated Audit Tools.

##### 4.1 Business Planning

The table below shows minimal change over the three-year period for N.A.L.G.A. peer members in the various elements of business planning, which include working with audit committees or senior management, preparing formal risk assessments and developing long-term audit plans. OIG will continue to work with County Council committees and senior management. The audit planning process as reported in the OIG work plan will be continuously refined.

Table 11. Business Planning				
Topic Area	Features & Highlights	Peers at Level 3 & 4		OIG Level
Working with audit committee and/or senior management to identify major issues	Audit committee and/or senior management reviews the audit work plan and strongly supports early involvement of the audit department	FY 98 67%		FY 01 1
		FY 00 71%		FY 02 1
		FY 02 76%		FY 03 1
Audit department planning process	Audit department prepares a formal risk assessment document.	FY 98 67%		FY 01 3
		FY 00 59%		FY 02 3
		FY 02 62%		FY 03 3
Planning for the future	Strategic planning and/or long-term (3 to 5 year) audit work planning on-going	FY 98 48%		FY 01 3
		FY 00 50%		FY 02 3
		FY 02 52%		FY 03 3

Source: OIG analysis of N.A.L.G.A. and OIG data.

##### 4.2 Measuring Results

According to N.A.L.G.A 83 percent of audit shops are tracking audit recommendations. About 83 percent of audit shops have audit committees or senior management or both that

#### 4. BEST PRACTICES (Continued)

actively support audit resolution and corrective action. In addition, another part of the survey reported in 2002 that 71 percent of audit shops work with audit clients on a regular basis to develop solutions to the audit findings or implement recommendations. OIG is continuing to work in this area.

Table 12. Measuring Results				
Topic Area	Features & Highlights	Peers at Level 3 & 4		OIG Level
Audit report resolution and corrective action taken by management	Audit committee and/or senior management actively support the audit resolution process and take corrective action in a reasonable period of time.	FY 98	72%	FY 01 2
		FY 00	75%	FY 02 2
		FY 02	83%	FY 03 2
Audit report follow-up	Action dates logged and tracked and non-compliance reported to audit committee and /or senior management.	FY 98	60%	FY 01 3
		FY 00	74%	FY 02 3
		FY 02	83%	FY 03 4

Source: OIG analysis of N.A.L.G.A. and OIG data.

#### 4.3 Professional Audit Standards

A significant number of audit shops use Government Auditing Standards in the performance of their audit work. One major hurdle to fully implementing audit standards appears to be the limited number of audit shops that have completed or routinely engage outside peer reviewers to conduct external quality control reviews. Only 52 percent of the peer group reported scheduling a peer review once every three years. OIG underwent a peer review in the spring of 2001 and will again in the spring of 2004, within the three-year time frame required under professional standards.

Table 13. Professional Audit Standards				
Topic Area	Features & Highlights	Peers at Level 3 & 4		OIG Level
Government Auditing Standards	Audit department applies government auditing standards issued by the U.S. GAO while conducting audits.	FY 98	65%	FY 01 4
		FY 00	82%	FY 02 4
		FY 02	77%	FY 03 4
External Quality Control Reviews	Audit department schedules external peer reviews once every three years.	FY 98	36%	FY 01 4
		FY 00	49%	FY 02 4
		FY 02	52%	FY 03 4

Source: OIG analysis of N.A.L.G.A. and OIG data.



## 4. BEST PRACTICES (Continued)

### 4.4 Audit Activities

In 2002 a significant number of N.A.L.G.A. member organizations (82 percent) were highly successful or experienced in conducting performance audits. Performance audits tend to be undertaken more often than not by larger audit shops. In fact it is common for inspector general offices in the federal government to have professional staff grouped into specialized audit and investigative divisions. OIG with three auditors does both investigations and performance audits.

Table 14. Audit Activities				
Topic Area	Features & Highlights	Peers at Level 3 & 4		OIG Level
High percentage of performance/operations audits	Audits focus on business process (economy and efficiency and effectiveness) not just controls.	FY 98	72%	FY 01 3
		FY 00	85%	FY 02 3
		FY 02	82%	FY 03 3
Control self assessment	Audit department educates/facilitates/equips operating departments for self-assessment of organizational risks	FY 98	14%	FY 01 2
		FY 00	12%	FY 02 2
		FY 02	22%	FY 03 3
Use of third parties to conduct audit work	Audit department selects and manages the use of outside auditors or consultants to conduct internal or external reviews	FY 98	40%	FY 01 3
		FY 00	32%	FY 02 4
		FY 02	30%	FY 03 4

Source: OIG analysis of N.A.L.G.A. and OIG data.

### 4.5 Use of Automated Audit Tools

Over 75 percent of audit shops reported using automated audit techniques and tools within their departments. OIG is using automated tools to assist with audit sampling, integrity checks, and audit time reporting.

Table 15. Use of Automated Audit Tools				
Topic Area	Features & Highlights	Peers at Level 3 & 4		OIG Level
Automated audit tools:	Use computer-assisted audit techniques and tools to assist in audit analysis and testing, and/ or audit planning and administration.	FY 98	65%	FY 01 3
Audit sampling		FY 00	74%	FY 02 3
Work paper formats		FY 02	76%	FY 03 3
Work paper file system				
Audit time reporting				

Source: OIG analysis of N.A.L.G.A. and OIG data.



## **5. CONCLUSION**

During FY2003 staff increased productivity and time spent on projects. An increasing amount of time was spent reviewing complaints and performing investigations based on citizen complaints. FY2003 saw the completion of a complex investigation involving one senior County manager. In addition, OIG published four reports dealing with, Travel and Expense card use by County employees, follow-ups to our earlier reports on Animal Control programs and school bus transportation, and a review of the increasingly vital issue of computer network security practices in the Housing Opportunities Commission.